

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

FINANCIAL REPORT

Year Ended June 30, 2007

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2
FINANCIAL REPORT
Year Ended June 30, 2007

TABLE OF CONTENTS

	Page
Independent Auditor's Report	3
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Statement of Revenues, Expenditures and Changes in Fund Balances	12
Notes to Financial Statements	13
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	22
Federal Programs	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24
Schedule of Findings and Responses	26
Schedule of Prior Audit Findings	27

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Grant Township School District No. 2
Copper Harbor, Michigan

I have audited the accompanying financial statements of the governmental activities and the major fund of Grant Township School District No. 2, as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Grant Township School District No. 2's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Grant Township School District No. 2, as of June 30, 2007 and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 18, 2007 on my consideration of Grant Township School District No. 2's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis and budgetary comparison information on pages 5 through 8 and 22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Jackie A. Aalto". The script is cursive and fluid.

Jackie A. Aalto, CPA

Calumet, Michigan
October 18, 2007

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Management's Discussion and Analysis

This section of Grant Township School District No. 2's ("District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

- Revenues increased 19.5 percent to \$116,799 mainly due to a federal grant.
- General Fund expenditures were \$131,594, \$24,258 more than General Fund revenues.

Overview of the Financial Statements

This annual report consists of three parts: 1) management's discussion and analysis (this section), 2) basic financial statements, and 3) required supplementary information. The basic financial statements include two kinds of statements that present different views of the District. The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information with a comparison of the District's budget for the year.

District-wide Financial Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets, the difference between the District's assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base, the condition of the school building and the long-term cash flow needs of the District.

In the district-wide financial statements, the District's activities are reported as:

Governmental activities – All of the District's basic services are included here, such as instruction, transportation and administration. Property taxes finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. The District has only one fund, the General Fund

Financial Analysis of the District as a Whole

Net assets – The District's combined net assets were less on June 30, 2007, than the prior fiscal year by \$9,213. The change is due to the general fund expenditures exceeding revenues during the 2006-07 fiscal year.

The table below provides a summary of the District's net assets as of June 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Assets:		
Current	\$ 181,374	\$ 200,898
Capital assets, net of accumulated depreciation	<u>38,779</u>	<u>33,197</u>
Total Assets	<u>220,153</u>	<u>234,095</u>
Liabilities – Current	<u>12,621</u>	<u>17,350</u>
Net Assets:		
Invested in capital assets, net of related debt	38,779	33,197
Unrestricted	<u>168,753</u>	<u>183,548</u>
Total Net Assets	<u>\$ 207,532</u>	<u>\$ 216,745</u>

The table below provides a summary of the District's change in net assets for the years ended June 30, 2007 and 2006:

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006</u>
Revenues:		
Program revenues:		
Charges for services	\$ 3,843	\$ 3,715
Operating grants and contributions	23,760	1,350
General revenues:		
Property taxes	83,891	89,402
Investment earnings	3,903	3,258
State aid - unrestricted	<u>1,402</u>	
Total Revenues	<u>116,799</u>	<u>97,725</u>
Expenses:		
Instruction	67,987	59,117
Support services	<u>58,025</u>	<u>56,020</u>
Total Expenses	<u>126,012</u>	<u>115,137</u>
Change in Net Assets	<u>\$ (9,213)</u>	<u>\$ (17,412)</u>

As reported in the statement of activities, the cost of governmental activities was \$126,012. These activities were primarily funded by property taxes.

A reconciliation of the change in net assets to the change in fund balance appears on page 12.

Financial Analysis of the District's General Fund

The fund level financial statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized when incurred.

The District's instruction and support services activities are reported in the General Fund. The District's combined fund balance was \$145,080.

A reconciliation of the fund balance to the net assets appears on page 11.

Capital Assets

At June 30, 2007, the District had \$38,779 invested in capital assets.

	<u>2007</u>	<u>2006</u>
Building and improvements	\$ 31,000	\$ 31,000
Equipment	10,045	
Vehicle	<u>32,000</u>	<u>32,000</u>
Total Capital Assets	73,045	63,000
Accumulated depreciation	<u>(34,266)</u>	<u>(29,803)</u>
Net Capital Assets	<u>\$ 38,779</u>	<u>\$ 33,197</u>

General Fund Budgetary Highlights

Over the course of the year, the District did not revise its budget to reflect changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the District's budget amounts compared with amounts actually paid and received is provided in the Required Supplementary Information section of these financial statements.

Budgeted and actual revenues for the General Fund were \$104,007 and \$107,336, respectively. Budgeted and actual expenditures for the General Fund were \$115,675 and \$131,594, respectively. Actual expenditures exceeded budgeted amounts by \$15,919. This was primarily the result of grant funds expended which were not included in the budget.

General Economic Factors

The District depends primarily on local non-homestead property taxes to fund its operations. Based on information currently available, no significant changes are expected to occur in the nature of the funding or operations of the District in 2007.

Contacting the School District's Financial Management

The financial report is designed to provide users of the report with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report, contact Ms. Peggy Kauppi, P.O. Box 74, Copper Harbor, Michigan 49918.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

**Statement of Net Assets
June 30, 2007**

	<u>Governmental Activities</u>
Assets	
Cash	\$ 83,815
Investments	73,727
Receivables	23,832
Capital assets, net of accumulated depreciation	<u>38,779</u>
Total Assets	<u>220,153</u>
Liabilities	
Accounts payable and other current liabilities	<u>12,621</u>
Net Assets	
Invested in capital assets, net of related debt	38,779
Unrestricted	<u>168,753</u>
Total Net Assets	<u>\$ 207,532</u>

The notes to the financial statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2**Statement of Activities
Year Ended June 30, 2007**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants & Contributions</u>	
Governmental activities:				
Instruction	\$ 67,987	\$	\$ 23,760	\$ (44,227)
Support services	<u>58,025</u>	<u>3,843</u>	<u></u>	<u>(54,182)</u>
Total governmental activities	<u>\$ 126,012</u>	<u>\$ 3,843</u>	<u>\$ 23,760</u>	<u>(98,409)</u>
General revenues:				
				83,891
Property taxes				3,903
Unrestricted investment earnings				<u>1,402</u>
State sources				
Total general revenues				<u>89,196</u>
Change in Net Assets				(9,213)
Net Assets – Beginning				<u>216,745</u>
Net Assets – Ending				<u>\$ 207,532</u>

The notes to the financial statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Balance Sheet Governmental Funds June 30, 2007

	<u>General Fund</u>
Assets	
Cash	\$ 83,815
Receivables:	
Taxes	7,873
Due from other governmental units	15,800
Interest	159
Investments	<u>73,727</u>
Total Assets	<u>\$ 181,374</u>
Liabilities and Fund Balances	
Liabilities	
Accounts payable	\$ 439
Accrued salaries and other liabilities	9,658
Due to other governmental units	2,524
Deferred revenue	<u>23,673</u>
Total Liabilities	36,294
Fund Balance – Unreserved and undesignated	<u>145,080</u>
Total Liabilities and Fund Balance	<u>\$ 181,374</u>
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Assets	
Total governmental fund balance	\$ 145,080
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$73,045 and the accumulated depreciation is \$34,266.	38,779
Receivables are not available to pay for current-period expenditures and, therefore, are deferred in the fund.	<u>23,673</u>
Net assets of governmental activities	<u>\$ 207,532</u>

The notes to the financial statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds Year Ended June 30, 2007

	<u>General Fund</u>
Revenues	
Local sources	\$ 90,481
State sources	1,402
Federal sources	11,610
Intergovernmental and other sources	<u>3,843</u>
Total Revenues	<u>107,336</u>
Expenditures	
Instruction	77,389
Support services:	
General administration	11,761
Operations and maintenance	8,809
Transportation	<u>33,635</u>
Total Expenditures	<u>131,594</u>
Net Change in Fund Balance	(24,258)
Fund Balance – Beginning	<u>169,338</u>
Fund Balance – Ending	<u>\$ 145,080</u>

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Fund to the Statement of Activities

Total net change in fund balance – Governmental Fund	\$ (24,258)
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Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.	5,582
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Revenues reported in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental fund.	<u>9,463</u>
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Change in net assets of governmental activities	<u>\$ (9,213)</u>
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The notes to the financial statements are an integral part of this statement.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2007

I. Summary of Significant Accounting Policies

The basic financial statements of Grant Township School District No. 2 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

Grant Township School District No. 2 ("District") is governed by the Grant Township School District No. 2 Board of Education ("Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14 and 39.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. The government-wide financial statements categorize primary activities as either governmental or business-type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, taxes and other unrestricted items are not included as program revenues but instead as general revenue.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2007

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District has only one governmental fund which is the General Fund. This fund is used to account for all financial resources. Revenues are primarily derived from property taxes.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2007

The District did not have any short-term investments at June 30, 2007. Investments are stated at cost, which approximates fair value, and include only certificates of deposit.

2. Receivables

Property Taxes – The District's property tax is levied each July 1 on the taxable valuation of property located within the District as of the preceding January 1. Property taxes are payable without interest on or before September 14 and without penalty on or before February 14. Penalties are collected from February 14 to March 1 at which time property taxes become delinquent.

Property taxes collected more than 60 days after June 30, 2007 are not recognized as revenue of the current year but rather as deferred revenue in the liability section of the balance sheet. The \$7,873 recorded as property taxes receivable in the General Fund is also recorded as deferred revenue as no amount was collected within 60 days of June 30, 2007.

State Revenue – The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on pupil membership counts taken in February and September 2006. In past years, the District did not receive any State revenue as its property tax revenue derived from non-homestead property exceeded the District's foundation allowance on a per pupil basis.

For the year ended June 30, 2007, \$1,402 of non cash transactions from the Michigan Department of Education (MDE) has been recorded as state aid revenue and pension expenditures as a result of a change in funding by the MDE.

3. Capital Assets

Capital assets, which include property, vehicle and equipment, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year, and computer equipment with an initial cost of more than \$500. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated fixed assets are valued at their estimated fair market value on the date received.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2007

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Property and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	10 to 50 years
Buses and other vehicles	5 to 10 years
Furniture and other equipment	5 to 25 years

4. Compensated Absences

The District generally provides for granting sick or personal leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

5. Fund Equity

When applicable, in the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

6. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. Stewardship, Compliance and Accountability

A. Budgetary Information

A budget is adopted by the District's Board of Education. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2007

and expenditures for this fund. The budget is adopted at the function level and control is exercised at the function level. All annual appropriations lapse at year end.

B. Excess of Expenditures over Appropriations in Budgeted Fund

During the year ended June 30, 2007, the District incurred expenditures in excess of the amounts appropriated by \$15,919. This was primarily the result of grant funds expended which were not included in the budget. These overexpenditures were funded by grant proceeds.

III. Detail Notes on all Funds

A. Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the District to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations which have an office in Michigan. The District is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The District has designated three banks for the deposit of District funds. The District's deposits and investment policy are in accordance with statutory authority.

At June 30, 2007 the District's carrying amount of cash and investments (certificates of deposit only) was \$157,542 with a corresponding bank balance of \$164,851, all of which was covered by federal depository insurance.

B. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets being depreciated:				
Building and improvements	\$ 31,000	\$	\$	\$ 31,000
Vehicle	32,000			32,000
Equipment	<u> </u>	<u>10,045</u>	<u> </u>	<u>10,045</u>

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2007

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Total capital assets being depreciated	<u>63,000</u>	<u>10,045</u>	<u> </u>	<u>73,045</u>
Accumulated depreciation:				
Building and improvements	(7,670)	(620)		(8,290)
Vehicle	(22,133)	(3,200)		(25,333)
Equipment	<u> </u>	<u>(643)</u>	<u> </u>	<u>(643)</u>
Total accumulated depreciation	<u>(29,803)</u>	<u>(4,463)</u>	<u> </u>	<u>(34,266)</u>
Governmental activities capital assets, net	<u>\$ 33,197</u>	<u>\$ 5,582</u>	<u>\$ </u>	<u>\$ 38,779</u>

Depreciation expense was charged to activities of the District as follows:

Governmental Activities

Instruction	\$ 643
Operations and maintenance	620
Transportation	<u>3,200</u>

Total depreciation expense – governmental activities	<u>\$ 4,463</u>
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C. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the deferred revenue consisted of delinquent property taxes of \$7,873 and \$15,800 in intergovernmental revenue.

IV. Other Information

A. Employee Retirement System

Plan Description

The District contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPSERS provides retirement, survivor and disability benefits and post retirement benefits for health, dental and vision for substantially all employees of the District. The MPSERS was established by Public Act 136 of 1945 and operates under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2007

statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy

Member Investment Plan ("MIP") members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work from January 1, 1987 through December 31, 1989, contribute at the following graduated permanently fixed contribution rates: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rate for the year ended June 30, 2007 was 16.34% of payroll through September 30, 2006 and 17.74% effective October 1, 2006 through June 30, 2007. The contribution requirements of the plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the years ended June 30, 2007, 2006 and 2005 were approximately \$9,715, \$7,795, and \$6,387, respectively, and were equal to the required contributions for those years.

Other Post-employment Benefits

Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The MPSERS has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by the MPSERS with the balance deducted from the monthly pension.

The District is not responsible for the payment of retirement or post-employment benefits which is the responsibility of the State of Michigan.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Notes to Financial Statements

June 30, 2007

B. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees and natural disasters. The District purchases commercial insurance to cover any losses that may result from the above described activities. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

C. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

Required Supplementary Information

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

**Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2007**

	Original & Final Budget	Actual
Revenues		
Local sources	\$ 99,957	\$ 90,481
State sources	100	1,402
Federal sources	200	11,610
Intergovernmental and other sources	<u>3,750</u>	<u>3,843</u>
Total Revenues	<u>104,007</u>	<u>107,336</u>
Expenditures		
Instruction	60,350	77,389
Support services:		
General administration	10,800	11,761
Operations and maintenance	10,525	8,809
Transportation	<u>34,000</u>	<u>33,635</u>
Total Expenditures	<u>115,675</u>	<u>131,594</u>
Net Change in Fund Balance	(11,668)	(24,258)
Fund Balance – Beginning	<u>169,338</u>	<u>169,338</u>
Fund Balance – Ending	<u>\$ 157,670</u>	<u>\$ 145,080</u>

Federal Programs

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Education
Grant Township School District No. 2
Copper Harbor, Michigan

I have audited the financial statements of the governmental activities and the major fund of Grant Township School District No. 2 as of and for the year ended June 30, 2007, which collectively comprise Grant Township School District No. 2's basic financial statements and have issued my report thereon dated October 18, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Grant Township School District No. 2's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Grant Township School District No. 2's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Grant Township School District No. 2's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a certain deficiency in internal control over financial reporting that I consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Grant Township School District No. 2's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Grant Township School District No. 2's financial statements that is more than inconsequential will not be prevented or detected by Grant Township School District No. 2's internal control. I consider the deficiency described in the accompanying schedule of findings and responses as item 2007-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Grant Township School District No 2's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that the significant deficiency described above as 2007-01 is not a material weakness.

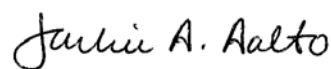
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Grant Township School District No. 2's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I noted certain matters that I reported to management of Grant Township School District No. 2 in a separate letter dated October 18, 2007.

Grant Township School District No. 2's response to the finding identified in my audit is described in the accompanying schedule of findings and responses. I did not audit Grant Township School District No. 2's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the board of education, management, federal and state awarding agencies, and, if applicable, pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Jackie A. Aalto, CPA

Calumet, Michigan
October 18, 2007

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Schedule of Findings and Responses

Year Ended June 30, 2007

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2007-01 Internal Control Design

Criteria: The segregation of incompatible financial duties is important to adequately protect the District's assets and ensure accurate financial reporting.

Condition: Presently there is not an adequate number of personnel available to properly segregate duties to provide reasonable assurance that no one employee would have access to both physical assets and related accounting records, or to all phases of a transaction.

Effect: Without proper segregation of duties, the risk increases that errors and fraud could occur and not be detected within a timely basis.

Cause: The District's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Recommendation: Efficient segregation of duties in a small environment is often difficult; however, I feel that the District's board should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible.

Response: We concur with the recommendation.

GRANT TOWNSHIP SCHOOL DISTRICT NO. 2

Schedule of Prior Audit Findings

Year Ended June 30, 2006

FINDINGS – FINANCIAL STATEMENT AUDIT

SIGNIFICANT DEFICIENCIES

2006-01 Internal Control Design

Criteria: The segregation of incompatible financial duties is important to adequately protect the District's assets and ensure accurate financial reporting.

Condition: Presently there is not an adequate number of personnel available to properly segregate duties to provide reasonable assurance that no one employee would have access to both physical assets and related accounting records, or to all phases of a transaction.

Effect: Without proper segregation of duties, the risk increases that errors and fraud could occur and not be detected within a timely basis.

Cause: The District's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

Recommendation: Efficient segregation of duties in a small environment is often difficult; however, I feel that the District's board should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible.

Status: The Board of Education has provided oversight control in the District's activities.

To the Board of Education
Grant Township School District No. 2
Copper Harbor, Michigan

In planning and performing my audit of the financial statements of Grant Township School District No. 2 ("District") as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, I considered the District's internal control over financial reporting (internal control) as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the effectiveness of the District's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, I identified a certain deficiency in internal control that I consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the following deficiency to be a significant deficiency in internal control.

The segregation of incompatible financial duties is important to adequately protect the District's assets and ensure accurate financial reporting. Presently there is not an adequate number of personnel available to properly segregate duties to provide reasonable assurance that no one employee would have access to both physical assets and related accounting records, or to all phases of a transaction. I feel that the District's Board of Education should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible.

In addition, I noted the following other matters involving internal control and other operational matters that are presented for your consideration:

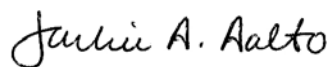
- The District needs improvement on its budgeting process. Section 18 of the Uniform Budget Act states that expenditures shall not be made in excess of the amount authorized in the budget. During the year, there were overexpenditures in the budget as listed in the Notes to the Financial Statements. The board must amend the budget as soon as a deviation is apparent. Proceeds from a grant received by the District were not reflected in the budget nor were the grant expenditures. In the future I recommend that budgeted revenues and expenditures be amended as soon as the board is aware of deviations.
- Receipts are not being issued when cash is received. Pre-numbered receipts should be made for all revenues that are collected by the District indicating the name of the payer, the amount paid, the purpose of payment, the account number they are being posted to, and the signature of the

person receiving the funds. This is to help ensure that all of the revenues collected by the District are accounted for. I also noticed that the checks that were received appeared to be held for several months before being deposited into the bank accounts. I recommend that deposits be made on a routine basis and at a minimum monthly.

- Currently, the Board of Education does not annually authorize check signers. A current listing of authorized check signers, which is approved annually by the Board of Education, should be maintained to ensure proper authorization of all disbursements. I recommend the listing be periodically reviewed and updated each time a change in check signers occurs and that the bank be promptly and formally notified of any change.
- The Board of Education does not annually authorize the use of specific financial institutions for its deposits. For purposes of risk management, the Board of Education should consider the number and location of financial institutions to be used by the District with the goal of minimizing the risks associated with uninsured cash while maintaining the convenience of holding accounts in the local geographic area. Based on these considerations, I recommend the Board of Education annually authorize the financial institutions to be used for District cash management.
- The District should review its account coding structure to ensure that it is consistent with Financial Accounting for Local and State School Systems published by the National Center for Education Statistics, November, 2003. Recommendations made in this section are those necessary to satisfy state and federal information requirements. The accounting system designed should accommodate the planning, budgeting, evaluating, and analysis functions of the District.
- During the course of my audit, it was noted that no formally authorized documentation exists for employee pay rates and benefits. I suggest that the Board formally document all authorized pay rates and benefits and that documentation should be placed in personnel files.
- During 2006, the federal courts deemed the federal excise tax on phone bills to be unconstitutional. They passed a ruling that all entities that paid the excise tax would be eligible for a refund of taxes paid between 2003 and 2006. Management should assess the amounts of tax paid to determine if filing for a refund is warranted.

This communication is intended solely for the information and use of the Board of Education, management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

I would like to thank the District personnel for their courtesy and assistance during the audit. I appreciate the opportunity to serve as your auditor. If there are any questions about your financial report or the above comments and recommendations, I would be happy to discuss them at your convenience.



Jackie A. Aalto, CPA

Calumet, Michigan
October 18, 2007